

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Mark Acton, Vice Chairman;
Tony Hammond; and
Nanci E. Langley

Periodic Reporting
(Proposal Nine)

Docket No. RM2017-13

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL NINE)

(Issued December 15, 2017)

I. INTRODUCTION

On September 29, 2017, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11, requesting that the Commission initiate a rulemaking proceeding to consider a proposal to change an analytical method approved for use in periodic reporting.¹ Proposal Nine seeks to change the current City Carrier Cost System (CCCS) methodology for estimating Delivery Point Sequence (DPS) volume proportions. Petition, Proposal Nine at 1. The proposed methodology uses digitally scanned mail characteristics data from the Origin-Destination Information System – Revenue, Pieces, and Weight (ODIS-RPW) to enhance CCCS data for DPS mail destined for delivery by

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Nine), September 29, 2017, at 1 (Petition). The proposal is attached to the Petition (Proposal Nine).

city letter routes. *Id.* at 2. For the reasons discussed below, the Commission approves Proposal Nine.

II. PROCEDURAL HISTORY

On October 3, 2017, the Commission issued a notice initiating this proceeding, providing for the submission of comments, and appointing a Public Representative.² The Public Representative filed comments on November 21, 2017.³ No other interested parties filed comments.

Chairman's Information Request No. 1 was issued on October 10, 2017.⁴ The Postal Service responded to CHIR No. 1 on October 16, 2017.⁵ Chairman's Information Request No. 2 was issued on October 23, 2017.⁶ The Postal Service responded to CHIR No. 2 on October 26, 2017.⁷ Chairman's Information Request No. 3 was issued on November 27, 2017.⁸ The Postal Service responded to CHIR No. 3 on November 28, 2017.⁹

III. PROPOSAL NINE

The Postal Service proposes to change the current CCCS methodology for estimating DPS mail volume proportions. Petition, Proposal Nine at 1. Presently, the Postal Service collects similar mail characteristics data, such as class and product data,

² Order No. 4141, Notice of Proposed Rulemaking on Analytical Principles used in Periodic Reporting (Proposal Nine), October 3, 2017.

³ Public Representative Comments, November 21, 2017 (PR Comments).

⁴ Chairman's Information Request No. 1, October 10, 2017 (CHIR No. 1).

⁵ USPS Responses of Questions 1-2 of Chairman's Information Request No. 1, October 16, 2017 (Responses to CHIR No. 1).

⁶ Chairman's Information Request No. 2, October 23, 2017, (CHIR No. 2).

⁷ USPS Response to Question 1 of Chairman's Information Request No. 2, October 26, 2017 (Response to CHIR No. 2).

⁸ Chairman's Information Request No. 3, November 27, 2017, (CHIR No. 3).

⁹ USPS Response of Question 1 of Chairman's Information Request No. 3, November 28, 2017 (Response to CHIR No. 3).

for two different systems: CCCS and ODIS-RPW. *Id.* at 1-2. CCCS data are used primarily to distribute costs to products delivered by city letter routes. *Id.* at 1. ODIS-RPW data are used to estimate volume and revenue. *Id.* at 1-2. The Postal Service collects CCCS mail characteristics data manually. *Id.* at 1. In contrast, the Postal Service collects ODIS-RPW mail characteristics data from digitally captured images of letter and card shaped mail.¹⁰

The Postal Service proposes a methodology change to CCCS data collection procedures for DPS mail. Petition, Proposal Nine at 1. The Postal Service seeks to use the ODIS-RPW digital data to enhance CCCS data for DPS mail destined for delivery by city letter routes. *Id.* at 2. The Postal Service explains that Proposal Nine would eliminate the need to manually sample a large portion of DPS mail for CCCS data collection purposes because the ODIS-RPW digital sampling frame covers approximately 93 percent of the CCCS sampling frame of city letter routes. *Id.*; *see id.* at 3. The Postal Service states that it would continue to manually sample mailpieces destined for city letter routes not included in ODIS-RPW's digital sampling frame, approximately 7 percent of city letter routes. *Id.* at 3.

IV. CHAIRMAN'S INFORMATION REQUESTS

CHIR No. 1 requested that the Postal Service discuss the differences between the mail characteristics data collected under the CCCS and the ODIS-RPW, and clarify the methodology that the Postal Service will use to combine the manually sampled CCCS data and the digitally sampled ODIS-RPW data. CHIR No. 1, question 1. In its response the Postal Service clarifies that the CCCS and the ODIS-RPW collects data for different sets of variables, and provides the list of variables for each system. Responses to CHIR No. 1, question 1.a. However, the Postal Service indicates that the

¹⁰ *Id.* at 2; *see generally* Docket No. RM2015-11, Order No. 2739, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), September 30, 2015.

lists of relevant variables are linked and states that a DPS mailpiece is assigned a CCCS mailcode based on the values of the mailpiece's ODIS-RPW variables. See *id.*

The Postal Service clarifies that, in the current methodology, digital scans used in the ODIS-RPW do not capture the difference between a letter and a card and that the ODIS-RPW manually collects such data. *Id.* The Postal Service states that the ratio of letter and card DPS volume collected manually during CCCS sampling will be used to split the letter and card volume for DPS mail tested digitally. *Id.*

In addition, the Postal Service states that, under Proposal Nine, the manually sampled CCCS data and the digitally sampled ODIS-RPW data are collected independently. *Id.*, question 1.b. To obtain the final estimate of DPS mail volume, the Postal Service plans to add the point estimates of mail volume from each data set. *Id.* The Postal Service notes that this is the method it currently uses to combine the digital and manually sampled ODIS-RPW data. *Id.*

CHIR No. 1 also sought details on the Postal Service's selection criteria for Mail Exit Points (MEPs) for digital sampling in the ODIS-RPW. CHIR No. 1, question 2. The Postal Services notes that it expanded the selection criteria. Responses to CHIR No. 1, question 2.a. As a result of these changes, the Postal Service collects ODIS-RPW data digitally at 12,329 MEPs, of a total population of 66,788 (approximately 18.5 percent). *Id.*, question 2.b.

CHIR No. 2 requested that the Postal Service discuss how it plans to assign the digital data collected under the ODIS-RPW to the CCCS mailcode data. CHIR No. 2. The Postal Service provides two files in response to CHIR No. 2. Response to CHIR No. 2. First, the Postal Service provides a flowchart that "describes how the data obtained from the ODIS-RPW are used to generate the CCCS mailcodes." *Id.*, see Excel file "Prop.9.ChIR.2.Flowchart.Attach.xlsx." Second, the Postal Service provides an explanation of how it assigns ODIS-RPW digital data bucket numbers and how it assigns those bucket numbers to CCCS mailcodes. Response to CHIR No. 2, see Word file "Prop.9.ChIR.2.Word.Attachments.docx."

CHIR No. 3 requested that the Postal Service confirm that Table “Impact of Proposal Nine” in its Petition estimates the impact of Proposal Nine on both Cost Segment 6 and 7, which the Postal Service confirmed. CHIR No. 3; Response to CHIR No. 3.

V. COMMENTS

The Public Representative was the only party to comment on Proposal Nine. The Public Representative supports Proposal Nine. PR Comments at 5. She notes that the Commission previously approved the use of digital sampling to collect ODIS-RPW mail characteristic data. *Id.* at 3. She states that the Postal Service is on the right track by utilizing and expanding the digital sampling design in the ODIS-RPW. *Id.* at 4. In addition, she finds the proposed approach of adding the manually sampled CCCS data and digitally sampled ODIS-RPW mail estimates to obtain DPS mail volume is reasonable. *Id.* Although she comments that she is unable to verify that the ODIS-RPW digital sampling frame covers 93 percent of the CCCS frame of letter routes, she notes that the Proposal Nine’s statistical study design appears well developed and should allow matching CCCS routes to ZIP Code levels. *Id.*

The Public Representative raises two concerns regarding the Postal Service’s impact analysis. First, after a review of the Postal Service’s methodology, she states that it appears that the estimated impact applies to both Cost Segment 6 and 7, not just Cost Segment 7 as suggested by the Postal Service.¹¹ Second, she also notes that the Postal Service relies solely upon data from Fiscal Year (FY) 2017, Quarter 3. PR Comments at 6. She notes that possible variation in the quarterly number of DPS mailpieces could lead to different DPS distribution key proportions and different unit costs, which could affect the estimated impact of Proposal Nine. *Id.* However, she

¹¹ *Id.* at 5, compare Excel file “Prop.Nine.Impact.xlsx,” tab “Impact,” Columns O through V with Excel file “Prop.Nine.Impact.xlsx,” tab “Table,” Column H.

does not expect the potential variation to significantly alter the estimated impact of Proposal Nine. *Id.*

VI. COMMISSION ANALYSIS

Based upon a review of the Postal Service's filing, supporting workpapers, and the Public Representative's comments, the Commission approves Proposal Nine because it finds that the proposal would improve the quality, accuracy, and completeness of the Postal Service's mail characteristics data for DPS mail used in the CCCS.

Use of ODIS-RPW digitally sampled data in the CCCS. The Commission finds that Proposal Nine builds on the opportunity presented by the use of digitally sampled data in the ODIS-RPW to substantially reduce the need to manually sample DPS mailpieces in CCCS. In Docket No. RM2015-11, the Postal Service requested Commission approval to use digitally scanned images of letters and cards for the collection of ODIS-RPW data at approximately 9 percent of MEPs. See Order No. 2739 at 3. The Commission found that "[a]utomated data collection systems that collect the same data as manual collection systems reduce the risk of undetected sampling errors[.]" and that digital sampling "mitigate[s] sampling bias resulting from manual data collection." Order No. 2739 at 4-5. Accordingly, the Commission found that the use of digital scans improved the quality, accuracy, and completeness of ODIS-RPW data. *Id.* The Commission also recommended that the Postal Service eventually transition the ODIS-RPW into a fully automated data collection system. *Id.* at 5.

In Proposal Nine, the Postal Service requests approval to use these same ODIS-RPW digital scans to collect CCCS data for DPS mailpieces. Petition, Proposal Nine at 1-2. After reviewing the materials provided in the Postal Service's Petition and in response to CHIR No. 2, the Commission finds that the proposed methodology to link the ODIS-RPW data to CCCS mailcodes is reasonable and should provide a reliable relationship between the ODIS-RPW digital sampling frame of ZIP-Days and the CCCS

frame of city letter routes. As in Order No. 2739, the Commission finds that use of digitally sampled data will mitigate sampling bias resulting from manual data collection and will improve the quality and accuracy of CCCS DPS mail data. Additionally, use of ODIS-RPW digital data will increase the number of DPS sampled mailpieces and the number of CCCS tests, thus making CCCS DPS mail data more complete.¹²

For these reasons, the Commission finds that Proposal Nine improves the quality, accuracy, and completeness of the data for DPS mail destined for delivery by city letter routes.

Public Representative concerns. In her comments, the Public Representative raises two concerns related to Proposal Nine. First, she states that it appears that the Postal Service's estimated impact included in the Petition concerns both Cost Segment 6 and 7, not just Cost Segment 7 as suggested by the Postal Service. PR Comments at 5. In response to CHIR No. 3, the Postal Service resolves the Public Representative's concern and confirms that the estimated impact included in the Petition covers both Cost Segments 6 and 7. Response to CHIR No. 3.

Second, the Public Representative expresses concern that the Postal Service relied on FY 2017 Quarter 3 data to estimate the impact of Proposal Nine. PR Comments at 6. She states that variation in the quarterly DPS volume could result in different distribution key proportion and different unit costs. However, she also states that she does not expect that the variation to significantly alter the estimated impact of Proposal Nine. *Id.* The Commission agrees that quarterly variation in DPS volume would not significantly alter the estimated impact of Proposal Nine. The Commission finds no ground for assuming that the impact of variations in quarterly DPS volume, if any, depends on whether data are collected manually or digitally.

¹² See Petition, Proposal Nine at 4. The Postal Service states that the number of DPS sampled mailpieces will increase by approximately 400 percent and the number of CCCS tests will increase by approximately 300 percent. *Id.*

VII. ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Nine are approved.

By the Commission.

Stacy L. Ruble
Secretary